June 30, 1959
Volume 14 · Number 6

Monthly Review
OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS

Economic strength at mid-year

New evidence is accumulating which points toward continued strength in almost all phases of the district's economy—agriculture, lumbering, mining, manufacturing, and construction. In fact, economic recovery may have been accelerated in recent weeks judging by such things as the increased consumption of electric power which suggests a strong upward trend in manufacturing, a stronger than usual seasonal demand for bank credit and a noticeable decrease in new claims for unemployment insurance. Bank debits, the dollar volume of checks written, also registered a 12 percent gain in May over the same period in 1958. Iron ore shipments in May, spurred by the possibility of a steel strike at mid-year, were the largest since May of 1953.

In agriculture, conditions have improved from the early season drouth situation with the occurrence of fairly widespread rains. The district, however, is still short of subsoil moisture reserves in most of the two Dakotas, parts of the eastern edge of Montana and to a lesser extent in Wisconsin. District crop production in 1959 is not expected to be as large as last year but production cannot be accurately estimated until the critical periods in July and early August are behind us. The livestock situation is currently favorable with prospects for increased marketings as we go along. Cash farm receipts, January through April, show

Farming on contract

Second in a series of articles on vertical integration in agricultural production . . 6

a 4.5 percent gain over that of a year earlier.

The banking situation in the district is characterized by an expanding demand for loans at all member banks but particularly so during May at the country banks. This increase in bank loans along with the usual seasonal outflow of deposits at this time of the year has tended to lessen bank liquidity to some extent. One of the measures of bank liquidity is the ratio of loans to total deposits which moved in the direction of less liquidity from 45.3 percent in May of 1958 to 48.7 percent this May. At district reserve city banks the loan-deposit ratio went up from 49.5 percent in May last year to 54.6 percent at the end of May this year. Another bank liquidity measure is the ratio of borrowings of member banks from the Federal Reserve to their required reserves. This ratio is the highest since 1957, also indicating a less liquid position.

In summary, a composite picture of current indicators points to economic recovery and expansion in the Ninth district paralleling that for the country as a whole. For the immediate future trend in the district, crop development, always an important factor here, will draw special attention in the next four- to six-week period.

The following selected topics describe particular aspects of the district's current economic scene:

NONAGRICULTURAL EMPLOYMENT NEAR PRERECESSION LEVEL

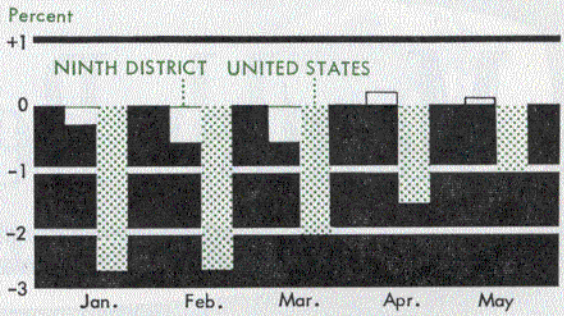
With economic recovery proceeding on a wide front, much of the nonfarm employment lost during the recent recession has been regained. District nonfarm employment, however, has not quite recovered to the prerecession level. In May, it was down about one-half of one percent from the corresponding month in 1957 before the recession began. It compares favorably, however, with the national figure which still was down 1 percent in May from the 1957 level.

In all major industry categories, with the exception of nondurables and government services, district nonfarm employment in May was below the 1957 level. In the manufacture of durables it was down over 6 percent. Despite the large shipments of iron ore from Lake Superior ports in May, district employment in mining was down 7 percent. Although the housing boom and heavy engineering projects have created a demand for construction workers, employment in this field was still down 13 percent, largely due to the current lag in nonresidential building. In wholesale and retail trade, it was off 4 percent. Offsetting to some extent the poor showing in other industries, employment was up 3 percent in the manufacture of nondurables and up 14 percent in government services, bringing total district nonfarm employment to less than 1 percent below the 1957 level.

Since the first of this year, district nonfarm employment has expanded approximately at the same rate as in the boom period of 1957. As can be observed in the accompanying chart, in January 1959 it was only 0.3 percent below the total for January 1957. In the succeeding months, this year's employment has been either slightly below or above the 1957 level.

The 1957-58 economic recession in this district was less severe than in the nation. In view of this, the rise in employment necessary to reach the prerecession level naturally is less than in

Nonagricultural employment



Ninth district May figure estimated.

the nation. This may also explain why district employment since the first of the year has been closer to the prerecession level than that of the nation as a whole.

BANK LIQUIDITY LESSENS

In recent months three measures have indicated reduced liquidity of member banks both in the district and in the nation as a whole.

(1) The *ratio of borrowings from the Federal Reserve to required reserves* has increased. In the first half of May, district reserve city banks borrowed 10.2 percent of their required reserves. This was more than double the comparable 4.5 percent figure for district country member banks. In the nation as a whole, reserve city and central reserve city banks borrowed 4.2 percent of their required reserve from the Federal Reserve in the first half of May. This compares with the 4.0 percent ratio for the nation's country member banks. All of these figures are the highest that have been recorded since 1957.

(2) The *ratio of loans to deposits* has increased. According to preliminary data, both reserve city and country member banks in the district experienced further increases in loans relative to deposit obligations in May. District reserve city banks had loaned 54.6 percent of their deposits at the end of May. This was substantially more than the 45.6 percent minimum monthly ratio recorded in 1958 but fell short of the 55.8 percent peak monthly figure in 1957. At district country banks the ratio of loans to deposits was 45.5 percent at the end of May, up from the 1958 low point of 40.6 percent and even above the 1957 high point of 44.1 percent. In the nation as a whole, the May 13 condition reports show that central reserve city and reserve city banks had loaned 51.7 percent of their deposits while country member banks had loaned 45.1 percent. As was true in the district, the city bank ratio of loans to deposits was less than the comparable 1957 peak level but the country bank ratio exceeded it.

(3) The *ratio of government security holdings due within one year to deposits* has fallen. According to the Treasury survey of security ownership, holdings of government securities due within one year fell in the first quarter of 1959 at the nine reserve city banks and at the 412 other district commercial banks included in the survey. At all commercial banks in the nation, the ratio of government securities maturing in less than one year to deposits fell from 7.4 percent in November 1958 to 5.3 percent in March 1959. In large part this resulted from a nearly one-third reduction in security holdings maturing in less than one year.

IMPROVEMENT IN UNEMPLOYMENT

The gradual improvement in the district employment picture is reflected in the declining trend of initial claims filed for unemployment insurance. Each year the number of claims filed declines sharply during the spring and summer. However, this year the decline is sharper than usual. During the second and third weeks in January of this year, claims filed in Minnesota, Montana, North Dakota and South Dakota were higher than a year ago but in subsequent months the number declined steadily below the year-ago figures. In May, the total was down as much as 38 percent from a year earlier and in the first week of June, down 43 percent. However, as compared with 1957, initial claims in May still were up 10 percent and in the first week of June, up 11 percent.

In this district, there still are a number of metropolitan areas with a labor surplus. The *Area Labor Market Trends* for May 1959, published by the U. S. Department of Labor, reports the following district cities as having a substantial labor surplus: in Upper Michigan, Escanaba, Iron Mountain and Marquette; in Minnesota, Duluth; in Montana, Butte and Kalispell; and in northwestern Wisconsin, Chippewa Falls, Eau Claire, La Crosse and Superior.

At the same time, labor shortages in some specific occupations have begun to appear in some metropolitan areas. The June 1959 *Labor Market Letter*, issued by the Wisconsin Employment Service, commented that "the available labor supply in most areas has narrowed to the point where labor shortages have now become apparent."

New Publications Available

Two new Federal Reserve Board publications are now available: *The Federal Funds Market*, a report on the market which handles sales and purchases of reserve deposits of Federal Reserve member banks, and *Debits and Clearing Statistics and Their Use*, a report on the development and use of the debits statistical series and its relationship to the clearings series. Send requests to the Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington 25, D. C. Another current publication, *The New York Foreign Exchange Market*, a description of the foreign exchange market centered in New York City, is available from the Publication Division, Federal Reserve Bank of New York, New York 45, N. Y., at $.50 per copy.

IRON ORE SHIPMENTS NEAR RECORD HIGH

Shipments from Lake Superior ports in May totaled 12,765,446 gross tons which was the largest shipment made in May since 1953. In May of that year, 13,596,829 gross tons were shipped. The largest monthly shipment on record was made in August 1953 of 15,236,790 gross tons. Thus, the current tonnage shipped again is moving up toward the record established in the past. In May of last year only 4,060,601 gross tons were shipped.

In spite of the high ore shipments at the present time, there still prevails considerable economic insecurity in communities where mining, beneficiating and shipping of ore is a primary industry. Mining companies have turned to low-cost mines and have purchased improved ore handling equipment. As a result, some of the former workers in the mining industry have not been rehired and have been forced to seek employment elsewhere. Should a strike be called in the steel industry, the paychecks of iron ore as well as of some transportation workers would also be cut off. These circumstances have led to conservative spending of current earnings which is reflected in department store sales. For instance, in Duluth and Superior, sales have not risen as sharply with the opening of the ore shipping season on the Great Lakes as they did in 1957.

LOANS INCREASE IN MAY

Member banks in the Ninth district reported a $39 million increase in their loans outstanding in the period from the last reporting date in April to May 27. Country banks accounted for all but $9 million of this increase. As the result of loan growth as well as further seasonal outflow of deposits from the district, investments in government and other securities decreased $35 million during May.

At the district weekly reporting banks, loans other than loans to banks increased $9 million in May. Almost all of this was accounted for by a $7 million increase in 'other' loans. 'Other' loans include loans to individuals and to nonbank financial institutions. In the year ended May 27, district weekly reporting banks experienced a $101 million expansion of their loans other than loans to banks. Business, 'other' and real estate loans respectively, accounted for 57 percent, 26 percent and 13 percent of the over-all loan increase.

THE CATTLE SITUATION

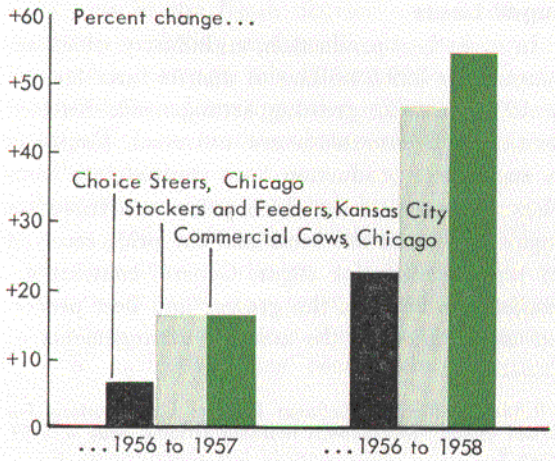
The U. S. Department of Agriculture forecasts severe price declines in cattle prices in the early 1960's if the current rapid rate of buildup in cattle numbers continues. Cattle numbers began in-

creasing in 1958 following two years of decrease; this was the shortest downswing on record and the decrease was not great. The January 1, 1958 inventory of cattle and calves on farms in the U. S. dipped to a low of 93.4 million head. One year later—January 1, 1959—the number of cattle and calves on farms had reached 96.9 million head, equal to the peak of 1956. And all indicators point to a continued rise in cattle numbers.

The drouth and low cattle prices of 1955 and 1956 curtailed cattle production. Reduced beef supplies in the period following caused prices to turn upward. The higher prices which provide an incentive to greater production were reinforced by increased feed supplies; both range feed supplies and feed crops were produced in abundant amounts in 1958. Lowered feed prices improved the beef-feed price ratio, thus making it more profitable to market feed in the form of livestock. Feeder cattle prices were bid upward, and in turn, cow prices moved upward as ranchers and farmers attempted to rebuild and expand herds.

The price pattern of the last couple of years has been typical of the price pattern of the expansion phase of past cycles. Fed cattle prices moved up the least, and have averaged below year-ago levels in recent months; feeder prices have increased relative to fed cattle prices, reflecting favorable beef-feed price ratios. Cow prices have moved upward relative to fed cattle prices as herd rebuilding gained momentum.

Price changes, selected class of cattle



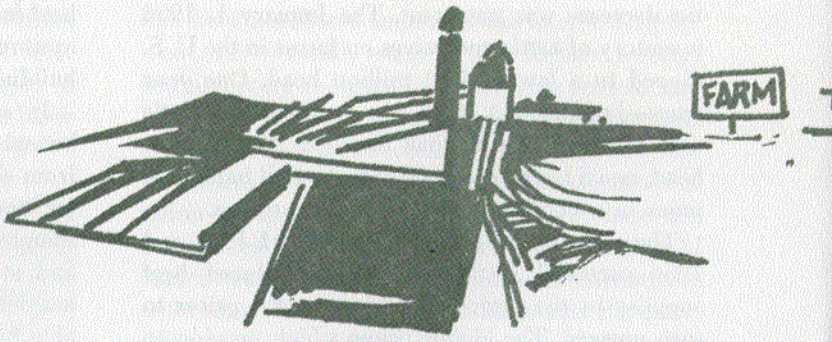
In every cycle an upturn in cattle numbers is brought about by a general withholding of cattle from slaughter. Cows are withheld from slaughter for another calf crop; calves are withheld from slaughter for both breeding and more feeding; and, steers and heifers are held longer and fed to heavier weights in response to the resulting favorable beef prices. Cattle slaughter during the first quarter of this year was 9 percent below a year ago; cow slaughter during the first quarter was 24 percent below last, calf slaughter was down 23 percent while fed cattle slaughter has been running 7-9 percent above last year. The cattle going to market this year are the best and the worst—highly finished fed cattle and cull animals, reflecting the desires to hold cattle on feed to heavier weights in the case of the fed cattle, and to hold cows for one more calf crop.

These are all the characteristics of a cattle boom—rising prices, reduced slaughter, and withholding cows and calves to build herds.

The USDA estimates that the slaughter rate to date suggests an increase in cattle numbers on farms of 4 to 5 million head by January 1, 1960. A 4 to 5 million increase would far exceed the rate of growth in the U. S. population; thus, it represents a buildup in the beef supply for the future. The current expansion in cattle numbers consists largely of young stock held back; only 19 percent of the 3½ million head increase in inventories last year were cows. A much larger part of the future herd increase will consist of cows which will increase the capacity for annual beef production.

The USDA suggests the real danger lies not in the current rapid expansion itself, but in the likelihood that it will continue its momentum; USDA analysts indicate the next 6 to 12 months could be the critical ones in the cyclical outlook for cattle.

Farming on contract



'Vertical integration,' 'vertigration' and 'contract farming' are terms which are prominent 'conversation pieces' in agricultural circles today. The purpose of this article is to review the kinds of production arrangements in agriculture to which these conversation piece terms refer, and to relate a few of the reported developments in vertical integration in agriculture.[1]

Vegetables

Contract farming has had a long, successful history in the vegetable processing industry in the Ninth district; this industry contributed an estimated $16.2 million to Ninth district farm incomes in 1956.

The U. S. Department of Agriculture estimates that 90 percent of the vegetables produced for canning and freezing are grown by or under written contracts with processors. Such contracts provide producers with an assured market and processors are better able to plan their operations on the basis of the anticipated supplies. In addition, contract arrangements enable processors to exercise more control over product quality by the proper timing of field and plant operations.

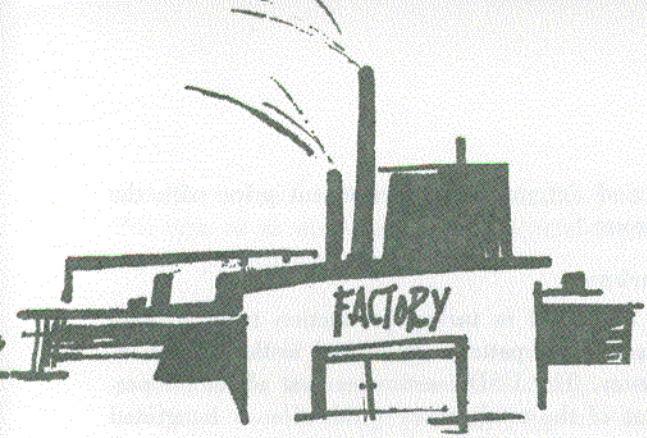
Contract terms in vegetable growing vary among areas, and also among processors. The broad aspects of the contract arrangements between growers and the Green Giant company of LeSueur, Minnesota, will serve to depict the typical production arrangements in this area. In green pea production, for example, the Green Giant company provides the seed, the drill for peas, soil tests and management advice, and provides for the harvesting of the crop. And if needed, the company provides for insect and disease control. The farmer provides the land, labor for planting, and tending the crop; he also provides the fertilizer and machinery needed to care for the crop. The success and acceptance of this production arrangement by growers is indicated by the fact that Green Giant always gets more applications for participation from growers than it can use.[2]

Sugar beets

In sugar beet production, an industry which accounted for $29.5 million of district farm income in 1957, contract growing arrangements between farmers and processors are universal. Contracts in sugar beet production have evolved into complex arrangements in which prices are based on sugar content of the beets and the price received by the processor for sugar. General contract arrangements between the grower and beet processor are typified by the contract arrangements of

[1] An earlier article "Agriculture: Industry in Transition," **Monthly Review**, April 30, 1959, pages 10-12, reviewed the developments underlying the trend toward integration or coordination of the activities in production, processing and distribution firms in agriculture.

[2] Asleson, Russell, "LeSueur Farmers Like Working For Green Giant," **Minneapolis Morning Tribune**, May 7, 1959, page 9.



the American Crystal Sugar company in the Red River Valley area. American Crystal sells the seed to the grower at a specified price. American Crystal also assists growers in obtaining the needed seasonal labor and in financing labor payments when necessary. The sugar company provides management assistance through trained fieldmen. On the other hand, the sugar beet grower provides the labor, land and necessary equipment for planting, thinning and harvesting beets.

Contract arrangements give the farmer an assured market for his sugar beets as well as a knowledge of the terms of sale. The sugar beet processor, through contract arrangements, likewise benefits in being certain of a sufficient supply of beets.

Integration via cooperatives

Farmers in the Ninth district[3] own 2,323 cooperative marketing and purchasing and service associations through which they have vertically integrated their farm operation with other phases of the production processes between the farmer and and the consumer.

Whenever the farmer extends his area of control over his product through additional stages of the production process, whether it is for purposes of processing or marketing, he is engaged in vertical integration. Vertical integration through cooperatives in agriculture has been mainly directed toward the farmer's attempting to increase his sphere of influence off the farm; whereas, the type of vertical integration or contract farming that is being widely discussed today is mainly concerned with contract arrangements between processors and farmers involving the production of commodities on the farm. Cooperative marketing associations that employ a marketing agreement which specifies marketing terms or arrangements, or any of a number of factors such as quality standards, tends to closely approach a contract type of farming arrangement as the term is employed today.

Contract farming arrangements in broilers, turkeys, eggs and other commodity lines as discussed in this article have also been used by numerous farmers' cooperatives.

Broilers

The advent of contract farming into animal agriculture has been most significant in poultry production and particularly in broilers. The USDA estimates that approximately 95 percent of the commercial broilers are produced on some type of an integrated basis. The broiler industry developed as a major enterprise in the South and East, and to a large extent the development came after World War II. Commercial broilers have essentially replaced the farm-produced young chicken in the market. The major factor in the development of the broiler industry in the Southeast was the labor cost advantage experienced in that area. For example, in the states of Georgia, Alabama and Mississippi, the area which has experienced the most rapid growth in broiler production, the 1958 composite farm wage rate was estimated to have been about $.50 per hour or less, contrasted with the U. S. average of $.75 during the same period.[4]

A brief review of the integrated production program operated by Jesse D. Jewell of Gainesville,

[3] Data based on the four states of Minnesota, North Dakota, South Dakota and Montana only.

[4] Karpoff, Edward, "Why Do Broilers Flourish In The South?," **Agricultural Situation**, A.M.S., USDA Volume 43, No. 3, March 1959, page 10.

Georgia, will serve to illustrate how integration in the broiler industry developed in the South.[5] Jewell owned and operated a feed store in 1936 and found that to sell feed he had to help farmers get livestock to eat it so he began financing chicks for his customers. And, to collect the feed bill he found he had to help farmers market the broilers, and he did this by trucking the broilers into Florida to markets which netted a better price. This was the beginning of an integrated business.

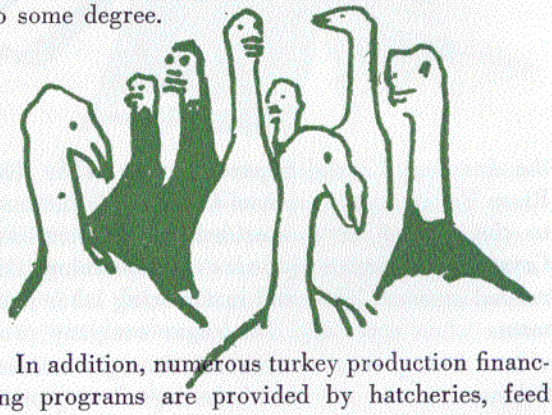
Today J. D. Jewell, Inc. hatches, feeds, raises, kills, plucks, freezes and sells 10 million chickens a year. From egg to broiler the birds are the property of Jewell. The chicks go out to farmers on contract growing arrangements whereby the farmer furnishes the poultry house, the brooders and fuel, the feeding and watering equipment, and the litter and medicines needed. And the farmer agrees to follow the company's management directions. Payment is made to the producer on the basis of weight, feed conversion and the going market price for live broilers as quoted by the USDA. A minimum price of $.18 per pound is the lower limit of the price risk assumed by the grower on grade A chickens.

Broiler contract provisions among integrated production programs vary widely but basically they provide the producer with credit, reduced risk and furnish a market outlet.

The A. G. Cooperative of Arcadia, Wisconsin, a diversified farmers cooperative, has developed an integrated broiler program in which 110 members produced 3 million broilers in 1957. The grower-members agree to finish four batches of birds per year, each in 10-12 weeks. The chicks are purchased from the A. G. Cooperative hatchery. The feed used is supplied by the cooperative. And, the cooperative processes and markets the birds. The receipts from broiler sales are pooled by the cooperative on a quarterly basis; thus, the average price realized by the cooperative in the 12-week period determines the settlement price with the grower.[6]

Turkeys

The trend in turkey production tends to conform to the pattern established in the broiler industry. The USDA estimates that about 50 percent of the total turkey production is integrated to some degree.



In addition, numerous turkey production financing programs are provided by hatcheries, feed manufacturers and dealers, and turkey processors. Most of these financing arrangements border on contract farming; they provide financing of the production credit, including poults, feed, brooder fuel, medicines, litter and other needs. Some of these contract feeding arrangements also provide credit for some of the capital equipment needed by the turkey grower. The feed company, hatchery or processor employs a serviceman who visits growers regularly to assist in production problems. In most cases the grower involved in this type of a contract arrangement retains the responsibility for both price and physical risk. Thus, although management assistance is supplied by the firm financing the operation, it is likely that a good share of the decision-making rests with the risk-taker—in this case, the grower—and as such, this financing arrangement falls somewhat short of contract integration. A large share of the

[5] Cannon, G., "Vertical Integration," **Farm Quarterly**, Winter 1958, page 90.

[6] Bakken, Henry H. and Grewal, G. S., University of Wisconsin, "Vertical Integration at the Grass Roots," **News For Farmers Cooperatives**, Farmers Cooperative Service, USDA, May 1959, page 5.

turkeys produced in Minnesota are financed under this type of an arrangement with several organizations participating.

Eggs

A very small percentage of total U. S. egg production is under contract, according to the USDA. A number of quality egg programs have been established by the chain stores; these programs fall short of contract farming in that they typically only specify a premium price in relation to the current market price for eggs produced under specified housing and management practices. The ownership of all the birds, equipment and buildings, and all production costs and financing, as well as the risk in these plans resides with the farmers.

Contract farming programs have not progressed as rapidly in table egg production as they have in other poultry product lines. Numerous egg contracting plans are in the experimental stages in many areas including the Ninth district. Most of these programs are designed to return to the farmer a specified return per dozen eggs produced. The Tennessee Egg company of Chattanooga, Tennessee, has such a program operating in its area. The Tennessee Egg company contracts with farmers to house and care for hens owned by the company. The egg company keeps the farmers' hen houses full of producing chickens, pays for the feed, litter, medicines, etc., and supplies management advice. For each dozen eggs produced the farmer receives $.06, plus a bonus of $.01 to $.06 per dozen, depending on a set of incentive performance provisions.[7]

Hogs

Looking at the experience in broilers, numerous feed companies and meat packing firms have been studying the implications for hog production, and several programs have been launched in hog production. The USDA estimates that contract hog production as yet is quite limited, probably accounting for less than 2 percent of hog production.

Among the earliest forms of integration in hogs were the feeder-pig contracts which appeared in the South. In these programs, which parallel the broiler contracts, the integrator, frequently a feed dealer, supplies the pigs, feed, veterinary and management services; the integrator holds title to the pigs and markets them. A common rate paid to the farmer is $.02 per pound of gain. The availability of feeder pigs tends to limit this type of program.[8]

Foxbilt, Inc., a feed company in Des Moines, Iowa, has developed a swine leasing program which gives farmers a chance to get into the hog business with very little ready cash. Gilts are placed with selected farmers in groups of 10 or 11. The farmer pays a service fee of $3.75 per head, and no further charge is made for the gilts; the gilts remain the property of Foxbilt. The necessary feed premixes are sold and financed by the company until the hogs are marketed.

The producers under the contract must agree to: follow sound management practices, purchase the needed feed premixes from the company, and supply grain to provide adequate rations for the animals. Further, at market time the producer agrees to return to Foxbilt one gilt per normal litter farrowed; the gilt is selected by a company representative. The farmer retains the gilts for at least two litters.

Foxbilt also has developed a boar leasing program. Under the program the company receives as its share for the use of the boar, a minimum of three market pigs for breeding up to 30 sows and one additional market pig for each additional 10 sows bred or fraction thereof. The minimum share received by the feed company would be 600 pounds of pork at the market price.[9]

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[7] Stannard, Fred, Jr., "The Egg and You," **Wall Street Journal**, July 3, 1958, page 1.

[8] U. S. Department of Agriculture, **Contract Farming and Vertical Integration in Agriculture**, Agricultural Information Bulletin No. 198, July 1958, page 20.

[9] Gates, George, "Foxbilt Swine Lease Program Gives Feed Volume Big Boost," **Feedstuffs**, March 29, 1958, page 10.

An indication of the interest on the part of packing companies in integrated pork programs is a recent announcement of Western States Meat Packers association. This group recently announced the appointment of a swine production committee to develop an integrated program for hog production in the western states.[10]

Beef

Vertical integration in beef production occurs chiefly in cattle feeding; it takes the form of contract or custom feeding. Integration in cattle feeding has experienced the most rapid expansion in the West. The rapidly expanding population in the West and the changing preferences for fattened beef were important factors causing the rapid growth in cattle feeding in the area.

Also important in development of commercial feedlots outside of the corn belt has been the increase in feed grain production in outlying areas. The diversion of wheat and cotton acres to feed grain production under the Price Support Program has been an important factor expanding feed grain production in those areas. Another factor in the expansion of feed grain production has been the technological developments that have enabled feed grains to be grown profitably in areas where they were formerly not competitive.

Commercial feedlots have experienced the most rapid development in areas where feed production has shown recent expansion, and where the feeder cattle were readily available. The lack of cattle feeding know-how, however, left the mobilization of this enterprise in those areas open to development by specialists; thus, the large commercial feedlots evolved.

The commercial cattle feeding industry has developed on the basis of large scale feedlots which feed 1,000 to 30,000 head at a time; these feedlots are in continuous operation. The contract feeding is done mainly for the cattle producers—as they hold ownership of the cattle through the feeding phase. A few meat packers and chain stores also own cattle which they have fed on a contract basis; these groups are interested in maintaining constant flows of quality beef. Rates are usually based on the cost of feeds, mixing costs, and a per head daily charge of $.01 to $.07 for handling.[11]

An estimated 10 to 20 percent of all fed cattle slaughtered today come from integrated production programs.[12]

Such are the developments in contract farming. Some of the contract arrangements as those in vegetable crops and sugar beets have had long successful records. Other contract farming developments are new—particularly those in livestock production; these developments in animal agriculture are the ones that have kept farm reporters, writers and speakers buzzing over the past months.

Contract production arrangements in animal agriculture represent a new dimension of competition among agricultural processing, marketing and supply firms. And as such, many new types of contractual arrangements can be expected to appear; some of these will succeed—others will fail in the competitive struggle. The full impact of contract farming developments on farmers, agricultural suppliers and processors, and consumers remains to unfold in the future.

—ARVID C. KNUDTSON

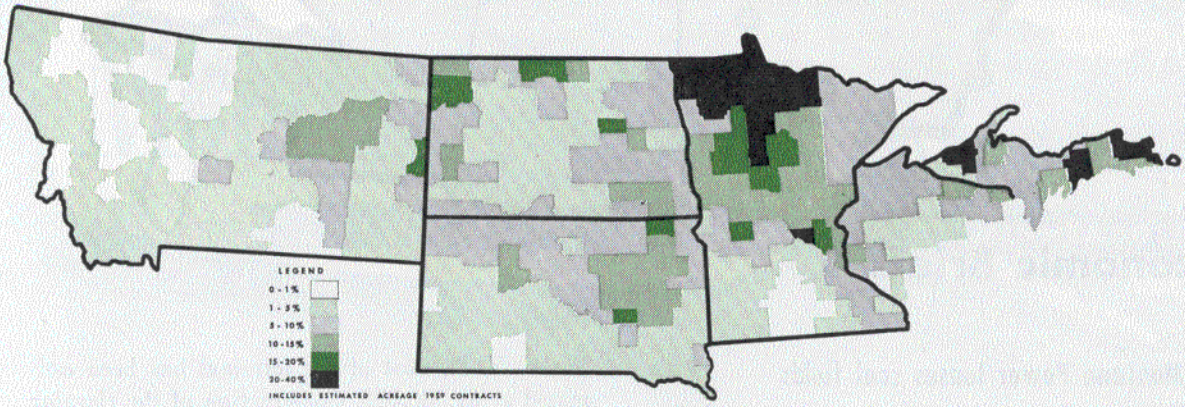
[10] "Western Packer Group Organizes Integration Plan," **Feedstuffs**, Volume 31, Number 17, April 25, 1959, page 1.

[11] U. S. Department of Agriculture, **Contract Farming and Vertical Integration in Agriculture**, Agricultural Information Bulletin No. 198, July 1958, page 19.

[12] Kramer, R. C., **What Is Integration And Its Current Status**, Paper presented to the National Institute of Animal Agriculture, Purdue University, April 21, 1958.

The Soil Bank Conservation Reserve

Ninth district farmers have to date withdrawn 5.7 million acres or 6.5 percent of their cropland[1] from crop production under the Conservation Reserve portion of the Soil Bank program.



Percent of total cropland in the Conservation Reserve

The Soil Bank program which began in 1956 originally had two distinct parts: the Acreage Reserve portion which has been discontinued, and the Conservation Reserve portion which was designed as a long-term program. Contracts under the Conservation Reserve portion of the program are written for 3 to 10 years. The stated objectives of the Conservation Reserve are: first, to help adjust crop production more nearly in line with demand, and second, to assist producers in establishing vegetative cover, trees, water storage facilities, and other conservation practices on land regularly used in the production of crops.

Average country payment rates per acre in the district in 1959 range from a low of $6.50 in Lake county, Minnesota, to a high of $20.50 in Blue Earth county, also in Minnesota.

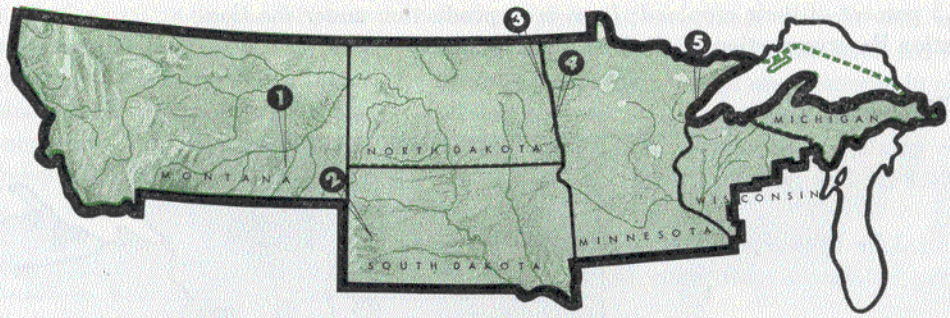
NINTH DISTRICT LOWEST AND HIGHEST COUNTY AVERAGE PAYMENTS PER ACRE, CONSERVATION RESERVE, 1959

States	Lowest	Highest
Minnesota	$ 6.50	$20.50
North Dakota	8.50	14.50
South Dakota	8.00	15.50
Montana	8.50	12.00
Wisconsin*	10.00	18.50
Michigan*	9.50	18.50

*Includes the entire state.

Cost-share payments are also made for carrying out conservation practices on the land placed under contract; these payments are made for numerous conservation purposes including establishing permanent vegetative cover, and for tree planting for purposes of reforestation.

[1]Cropland as reported in the 1954 Census of Agriculture.



Economic Briefs

1. Montana Power leases coal fields

Montana Power company has announced the purchase of coal deposits in Montana from Northern Pacific Railway company. Northern Pacific granted a 30-year lease to Montana Power to mine about 3,300 acres of railway coal lands near Colstrip, Montana, 100 miles east of Billings. Reserves of 50 to 60 million tons of subbituminous coal lie near the surface where they can be recovered by large-scale, low-cost strip mining. Montana Power expects its future power supply to come primarily from steam-electric generating plants. The power company operates one 66,000 kilowatt plant at Billings and is considering a second to supply growing industry in Montana.

2. $5 million power plant in South Dakota

The Black Hills Power and Light company is going to build a new $5 million generating plant in Rapid City, S.D. The plant will have a capacity of 22,000 kilowatts. Rapid City was selected because it is the primary load center in the area, requiring more than 40 percent of the power sales. Actual construction was started on the warehouse and office section of the building in early June.

3. Giant grain terminal underway in N. D.

Construction is under way on a 5-million-bushel terminal grain elevator three miles north of Grand Forks, N. D. Cost of the terminal has been estimated at $1,500,000. Construction of the elevator will probably take about five months, but one million bushels of storage space are expected to be available by mid-August. The grain elevator, largest in the state, will be owned by G-F Grain company, for which C-G-F Grain company of Wichita, Kansas is the parent organization.

4. Armour plant to close in West Fargo

Shutdown of the Armour slaughtering plant at West Fargo, N. D. will eliminate some 300 jobs at that locality. The shutdown is part of a cutback by Armour at 7 of its 32 plants this summer, eliminating an estimated 5,000 jobs. Slaughtering operations are scheduled to end July 15, and other plant operations will stop about August 1. The West Fargo plant, largest meat packing operation in North Dakota, was opened in 1925. Armour has announced that it will expand operations at other plants and jobless workers will be given the opportunity to transfer wherever jobs are available.

5. Duluth-Superior bridge started

A two-mile bridge between Duluth, Minn. and Superior, Wis. is under construction. Pier footings for the bridge, which is estimated to cost $21,000,000, have been laid. Completion of the bridge is expected to take three years.